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THE BUDGET AND THE LEGISLATURE

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Under the governmental institutions existing in this country, the legislative branch of government has ultimate authority over the public purse strings. Without its sanction in some form, no taxes may be imposed or other revenue raised; while on the other hand it may place such restrictions as it deems advisable upon the purposes for which expenditures may be made, or the amounts which may be expended for any particular purpose.

In many of our governmental units, this power of the legislative body is exercised in a haphazard, hit-or-miss fashion, little or no effort being made to take under systematic consideration the financial policy as a whole. Regular appropriations, special appropriations, supplementary appropriations, deficiency bills, etc., follow one another in confusing sequence, with little thought of where the money is to come from, the result being that nobody in the community, not even the officials themselves who are presumably responsible, have any intelligent idea of the existing financial status or of the policy which is being followed.

Reduced to its lowest terms, budgetary procedure is coming to signify a means through which this power may be exercised in a systematic and intelligent manner, taking all factors into consideration at the same time, or with relation to one another, and enacting or determining upon, so far as possible, all legislation at once for a given period.

The present article is not an attempt to add new contributions of a technical character to existing discussions of the subject. If it can by restatement present the main principles in such a way as to be helpful to a wider understanding of them and of their application, the writer's object will have been achieved.¹

¹For more extended and technical discussions, the reader is referred to such documents as Nos. 58, 59 and 62 of *Municipal Research*, published by the New York Bureau of Municipal Research, the report of President Taft's Commission on Efficiency and Economy entitled, *The Need for a National Budget*, and more formal treatises.

The greater part of the following discussion is stated in somewhat general terms, being in the main intended to apply broadly to all governmental units, whether federal, state, or local. Where particular instances are cited, they will be chosen from conditions with which the writer happens to be familiar, and for that reason only.

It is a familiar fact that the financial operations of the government are the reverse of those of private enterprise in one respect; instead of regulating its expenditures by its receipts, government to a considerable degree first determines upon its expenditures and afterwards upon the methods of securing the funds with which to meet those expenditures. Thus the budgetary procedure addresses itself to two main questions:

- 1 How much money is needed for a certain period?
- 2 How shall it be raised?

The advantage, if not the necessity of considering these two questions together is readily understood. No matter how much money is needed, there may be practical limitations to the possibility of getting it. Such limitations may be legal, political, or financial.

Municipalities may be subject in their tax levies to the limitations of a state law; elective officials, even when convinced of the advisability of increased expenditures, may hesitate to raise the tax rate because of its possible reaction on their political futures; in spite of a desire to proceed with public improvements, financial conditions may not be such as to enable the ready or advantageous marketing of the necessary bonds.

On the other hand, if money is plentiful, "needs" show themselves capable of expansion *ad libitum* or *ad nauseam*, according to the point of view. Like an individual, government can at some times and under some conditions "afford" to enter upon undertakings which at other times and under other conditions it can not.

Other considerations may be instanced. Taxpayers may be willing to agree to additional amounts for certain purposes, but not for others. Where referenda on extra levies are involved, such preferences may be decisive. Taxpayers have nearly always responded favorably to appeals for the support of schools, but have only recently begun to appreciate health needs. Legal limitations sometimes differ with reference to the purpose of expenditure. Thus it often becomes necessary to specify what a proposed expenditure is

for, in order to ascertain whether the money can be secured. To some extent, therefore, the consideration of income and expenditures simultaneously is unavoidable.

On the other hand, difficulties may be encountered in trying to make this simultaneous consideration of income and expenditures for a given period entirely complete. Emergencies of various kinds may occur which it was genuinely impossible to foresee. The procedure in connection with public improvements, especially where assessments on benefited property are involved, does not always lend itself readily to the same method of handling as the procedure relating to current purposes. As far as possible, however, a comprehensive review of the whole financial situation and policy at once is desirable, including both receipts and expenditures for both current purposes and for public improvements.

The following diagram may serve to illustrate the logical relations of the main parts of budgetary procedure, although the chronological sequence may be different:

OUTLINE OF BUDGET SCHEME

	Expenditure	Income
Budget.....	Proposal of kind and amount of work to be done and of amount of funds needed therefor	Proposal of method of securing money with which to finance proposed work
Legislative action	Act of appropriation (a) authorizing and (b) limiting expenditures	Revenue and borrowing measures providing funds for meeting expenditures

In the meaning most usefully employed, the budget itself is primarily a *proposal* which *leads to*, or forms the basis of, *legislative* action. To be complete, the proposal should relate to both expenditures and receipts, as contemplated. The legislative action is thereupon directed on the one hand to the authorization and limitation of expenditures, and on the other to providing the necessary funds.

What shall the proposal, or budget, contain? Who shall formulate it? What shall be done with it in order to bring about

legislative action best calculated to promote an efficient public service?

The contents of the budget should be determined by the use to which the budget is to be put. If the budget is considered as a proposal to be presented to the legislative body as a basis for legislative action, then the budget should contain two kinds of material:

(1) The proposal proper, or request, as it may be called for convenience, which indicates a tentative course of action for which legislative sanction is desired, together with the facts upon which it is directly based.

(2) Collateral information which will aid in the consideration of the request and in the determination of how far it should be granted.

In current practice, it is common to find only the former, and even that in the barest outline. Mere letters dealing with expenditures only, and saying in effect, "We want \$———" with little or no explanation or detail, are not infrequent.

Included as part of the proposal proper, or request, should be data setting forth:

- (1) What kinds of work are proposed to be done.
- (2) What quantity of results of each kind of work are proposed to be accomplished.
- (3) What quantities of personal service, supplies and materials, etc., are estimated to be necessary to accomplish these results.
- (4) The estimated necessary expenditures for these quantities of personal service, supplies and material, etc.
- (5) When the proposed expenditures, if authorized, will probably be made.
- (6) The available sources of revenue.
- (7) The estimated amounts which will or can be derived from each source.
- (8) The purposes to which the amounts from these sources are applicable.
- (9) When the amounts from each source will be available.

The collateral information should be such as to show:

A. Relating to past performance:

- (1) What kinds of work have been done.
- (2) What quantity of results of each kind of work have been accomplished.
- (3) What quantities of personal service, supplies and materials, etc., have been used in the accomplishment of these results.
- (4) The actual expenditures for these quantities, etc.
- (5) When the expenditures were made.
- (6) The sources from which revenues were obtained.
- (7) The amounts actually derived from each source.

- (8) The purposes to which the amounts from these sources were devoted.
- (9) When the amounts from each source were available.

B. Relating to present condition:

- (10) What is the stage of progress of the work, and —
- (11) What is the financial condition, both at latest convenient date and on corresponding previous dates, with comparisons indicating changes.

C. Relating to future needs:

- (12) What are the kind and extent of needs which should be met during the coming period.

The degree of effectiveness which can be reached in marshaling such material in close working relations is greatly influenced by the periods for which the data are assembled and by the time at which the budget is formulated.

It is obvious that the more recent the information as to past experience, the greater is its value. It is an advantage, therefore, when the date of formulating the budget follows closely upon the end of an operative period.

On the other hand, it is equally obvious that the shorter the interval between the formulation of the budget and the beginning of the future period covered by its proposals, the more accurate its estimates are bound to be.

It is the view of the writer that the maximum of effectiveness might be reached if the budget could be formulated immediately after the close of an operating period, the interval up to the time when the new legislative action takes effect being bridged by an authorization to expend on account, or to continue pro rata as during the preceding period. Under such an arrangement, annual or biennial reports will be pressed into immediate service, and demands will be made upon them in the way of definiteness and accuracy which will vastly improve their form and content.

It is readily seen that to provide the data above indicated for budget purposes, systems of accounting and of service records are required. Without such systems properly designed, the necessary data can not be secured. It is not, however, within the scope of this article to enter upon a discussion of these further than to remark that they should be so devised as to enable expenditures and results to be matched accurately for given periods.

Of direct bearing upon the usefulness of the information pre-

sented in the budget is the classification of accounts. If the classification of expenditures employed fails to make distinctions between current operation and maintenance and those for capital outlay, it will be impossible to pass intelligent judgment upon the budget proposals. It is important also that the classification employed be flexible in application, ranging from extreme condensation to extreme detail and uniform for all departments.

The following classification of expenditures recently adopted by the State Bureau of Accounting of Ohio is of interest as being one of the latest developments in this direction.

Classification of Accounts

In order that the expenditures chargeable to the governmental functions or organization units may exhibit the information desired for administrative, statistical and other purposes, the expenditures are classified according to character of transaction and subclassified according to objects of expenditure.

Under each function or organization unit, the following captions denoting character of transaction are employed, the figures at the left of each serving as a code designation:

- 010 Operation.
- 100 Maintenance of Lands.
- 200 Maintenance of Structures and Improvements.
- 300 Maintenance of Equipment.
- 400 Contingent.
- 450 Debt Service.
- 500 Outlay for Lands.
- 600 Outlay for Structures and Improvements.
- 700 Outlay for Equipment.
- 990 Refunds.

Under each of the accounts in the above classification, in order that the object of expenditure may be denoted and separately charged under a specific caption, the following group of accounts may be used. The letters at the left of each serve as a code designation.

- A. Personal Service.
- B. Supplies and Material.
- C. Contractual Service.
- D. Contributions, Gratuities and Awards.

Suitable subdivisions in detail are provided for each of the accounts, but cannot be given here for lack of space.

In brief, then, the budget should contain such material as will in extent and form best enable it to present a definite working and financial program for a coming period, supported by adequate data for obtaining its approval by the legislature.

The question of who shall formulate the budget has been the subject of no little discussion, into which this article can hardly enter at any length. The views herein given are those of the writer, and are offered without argument for what they may be worth.

From its character as a body of information leading up to and supporting a proposed working and financial program, it would appear that the budget should originate where the work is being done and where the information is available, *viz.*, in the various departments of the executive branch. This seems not to be in controversy.

By whom, however, shall the departmental data be reviewed, modified, correlated, and united into a homogeneous whole? Among the considerations in favor of placing this function in the hands of the chief executive may be mentioned the following:

(1) By reason of the manner of his election, he represents the entire citizenship and not merely a section of it.

(2) There is now an increasing tendency in city, state, and nation, to hold the chief executive responsible for the policy of the government as a whole.

(3) It is a part of the regular duty of the chief executive to understand, correlate and supervise the work of the various administrative departments, which constitute the bulk of governmental work.

(4) It would be loose organization to have such departments dealing with the legislature independently of their chief, who is responsible for them.

(5) When the program contained in a budget formulated by the chief executive is approved by the legislature, the most definite and concentrated responsibility possible is placed upon him to carry out that program as set forth therein.

For such reasons, briefly stated, the writer agrees with those who hold that the budget should be formulated by the executive and be by him presented to the legislature.

In order that the budget may be kept within proper limits, the departmental proposals should at one or more points be search-

ingly examined in the light of the supporting data, to see that a case has been established, the burden of proof being considered to be on the proposals. Who should conduct this examination and how?

The scrutiny should be made from two standpoints—one, that of administrative efficiency; the other, that of general policy.

In view of the increasingly technical character of much of the public service, it seems necessary that the examination into administrative efficiency, to be effectual, should be conducted by a technically trained staff. That such a staff is an indispensable adjunct to the chief executive for the proper performance of his general administrative duties is coming to be more frequently urged. If such a staff constitutes a part of the executive's immediate organization, and if the executive is charged with the formulation of the budget as a single unified whole, the examination into the administrative technique of departmental proposals would most naturally take place at that stage. In such event, the main responsibility will come to rest upon the chief executive for ensuring that the proposals embodied by him in the budget are sound so far as administrative method and plan are concerned.

With respect to proposed general policies, the chief executive and the legislature may be expected to concern themselves almost equally, the one as initiator and the other as critic. It is too often the case that, for one reason or another, the action of one or the other is little more than perfunctory. Both, however, should conduct a thorough and systematic scrutiny of the proposals submitted to them. Their action thereon by way of approval or rejection will clearly locate official responsibility for the results.

So far as possible, the practice should be developed of the executive and the legislature coöperating in their consideration of problems calling for the action of both. Thus it would commonly prove advantageous for the investigations and data of the executive's technical staff to be rendered available to the legislature. Joint sessions of the executive and the finance committee or committees might well be found to expedite the consideration of the budget. The chief executive should have an opportunity, if he desires, to be heard, personally or by representative, in the legislative discussion of his proposals.

The submission by the executive to the legislature of the budget as a working and financial program raises several questions.

Is it advisable to limit the powers of the legislature in dealing with the budget? What shall be the form of the act of appropriation? What conditions should be attached to the authorization conveyed in the act?

It is urged that in dealing with the proposals contained in the budget, the legislature be restricted to a reduction or elimination of items, the argument being that there is a strong tendency to "log-rolling" and "pork barrels" arising in large degree from the sectional representation in the legislature.

The force of this argument would probably vary somewhat in its application to different constituencies. It would apply, for example, with less force to municipalities with councils or commissions elected at large than to state governments. In the commission manager type of city government, where the city manager is an appointee of the commission and the commission is the legal possessor of all powers, such a regulation would be still less in point. In the larger governmental units, however, it may well be found desirable. A restriction which clearly should be imposed upon the legislature in dealing with the budget is one preventing the imposition of "riders."

When the legislature comes to act, the form of its appropriation should be such as to impose only the restrictions necessary to ensure the proper application of public funds, while placing the fewest possible obstacles in the way of efficient administration. The combination is not easy to arrive at, and is perhaps not the same at all times or for all conditions.

Recent emphasis on the importance of the so-called budget, meaning thereby the appropriation, has apparently led many to suppose that everything can be accomplished through it. Functions have accordingly been imposed upon it which it is not suited to perform, and which should be performed by other instrumentalities, such as a proper financial reporting system, standardization of services and purchases, etc. Thus appropriations in minute detail, while fulfilling the purpose of securing the proper application of public funds, may and often do defeat the efforts of administrative officials to achieve efficiency and economy. The abuses of "lump sum" appropriations arose not only from the form of appropriation, but also from the absence of proper accounting and reporting meth-

ods which would substitute facts in place of guesses as a basis for discussing official policies.

From the standpoint of administrative efficiency, the presumption is in favor of a wide freedom to get results, subject only to the restrictions which experience has shown to be necessary to prevent specific abuses such as pay roll padding, indiscriminate salary increases, favoritism in appointments and promotions, closed or vague specifications, purchases without due competition, etc. To prevent such abuses, specific devices should be worked out which will offer a minimum of interference with administration freedom.

The much longed for efficiency in government cannot be obtained by securing experts and then tying them hand and foot. The two courses are largely inconsistent. We have been led into the tying method because we have not had experts with expert standards; to prevent our tyros from making excessive blunders, we have hobbled them. If now we propose to employ experts, as we should, we must cut away the hobbling devices and enforce their accountability by other and more grown-up means.

Nothing has thus far been said about the participation of the public in budget-making. The recent development of this factor has been marked, and should be encouraged up to the limit of practicability. It goes without saying that full publicity should characterize the budget proceedings from start to finish. Further than that, however, the interchange of views between officials, both executive and legislative, and the public as to the policies which should be embodied in the program should prove of increasing value to both, as the intelligence of the public, and especially of civic organizations of various types, grows with reference to governmental activities.

As has been pointed out in this connection, the right of petition is as fundamental and valuable a citizen's prerogative as the franchise and its systematic use as a factor in producing better government should be encouraged. The more extensively improved budget-making methods are put into operation, the better will be the public's understanding of governmental policies, and the more effective their participation is capable of becoming.

Much as has been said and written during the past few years about the budget, we have not even yet come to a full realization of its central importance. On the one hand, as advocates of social

progress are continually reminded by experience, forward steps are more frequently halted or delayed by alleged inability to finance them than by direct objections to their merits. For social workers and others favoring the extension of governmental functions an understanding of the budget as the financial program thus becomes essential. On the other hand, the extension of governmental functions may well be looked upon with concern unless more effective instruments of control are developed than are now in operation. The contention that until government can do well what it does do, it should not receive greater responsibilities, is too near the mark to be ignored. Expansionists and conservatives alike, therefore, may well turn their attention to the budget as the medium through which to attain their objects; for the power to raise and spend money is in practice the central power of government.